ERNEST L. JENKINS, SR.

DELMARVA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF ERNEST L. JENKINS, SR.
BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION
CONCERNING AN INCREASE IN ELECTRIC BASE RATES
DOCKET NOS. 09-414/ 09-276T

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1. Q: <u>Please state for the record your name and position.</u>

A: My name is Ernest L. Jenkins, Sr. I am Vice President, People Strategy and Human Resources (PS&HR) for Pepco Holdings, Inc. (PHI). In that role, I serve as the senior executive for human resources for PHI's operating companies, including Delmarva Power & Light Company (Delmarva or the Company).

2. Q: <u>Please state your educational and professional background.</u>

A: I have worked for PHI or one of its predecessor companies for twelve years. I hold a Bachelor of Science Degree in Secondary Education with minors in Sociology, Psychology and Health and Physical Education. I also hold a dual Masters Degree in Management and Human Resources Development. As Vice President, People Strategy and Human Resources, I am responsible for administering the Company's compensation and benefits programs as well as all aspects of talent management.

3. Q: <u>Have you filed testimony before in this proceeding?</u>

A: No, I have not filed testimony previously in this proceeding. I am filing testimony as a rebuttal witness for reasons described below. This testimony was prepared under my direct supervision.

4. Q: **<u>What is the purpose of your rebuttal testimony in this proceeding?</u>**

A: The purpose of my testimony is to address certain proposals made by witnesses for Commission Staff (Staff) and the Division of the Public Advocate (DPA) regarding non-executive and executive compensation. Specifically, I will address Staff's position regarding the following: Adjustment 8, Incentive compensation, Adjustment 9, Executive and officer compensation and Adjustment 5, Supplemental Executive Retirement Plan (SERP) Adjustment No. 7, Employee Benefits.

I will also address the DPA's position regarding Non-Executive Incentive compensation discussed on page 40 of DPA Witness Cotton's testimony. I believe that these positions are not reasonable, inconsistent with past Commission ratemaking practices, and incompatible with the need to allow management to make reasonable decisions concerning the management of employees and the operation of the Company. My testimony will focus on the strategic aspects of how these adjustments impact Delmarva Power's ability to manage its business. Company Witness VonSteuben addresses specific ratemaking questions regarding these adjustments.

5. Q: **<u>Please describe the positions of Staff Witness Mullinax.</u>**

A: Staff Witness Mullinax makes the following adjustments that my testimony will address:

- Adjustment 8: Incentive Compensation- removes all non-executive incentive compensation;

- Adjustment 9: Executive and Officer Compensation- removes several of the executives' benefit costs associated with the top five officers;
- Adjustment 5: removes the inclusion of SERP expenses because, in her opinion, customers should not fund additional retirement benefits for PHI Officers, and;
- Adjustment 7: removes the Company's adjustment to reflect an increase in employee benefits for medical, dental and vision expenses.

I do not agree with these adjustments and I will address each below.

6. Q: <u>Did Staff Witness Mullinax include any incentive compensation associated with safety and reliability goals as reflected in the Commission's decision in Docket No. 05-304?</u>

A: No, she did not. On page 19 of her testimony, Company Witness Mullinax states that she recommends that all non-executive incentive compensation be removed. I have attached Schedule ELJ R-1 which is the Staff response to Company Data Request No. 37. It shows that Staff Witness Mullinax removed all non-executive incentive compensation including that associated with safety and reliability.

7. Q: <u>Please describe the position of the DPA regarding Non-Executive Incentive Compensation.</u>

A: DPA Witness Cotton removes all of the incentives for non-executives, including the incentives related to safety and customer satisfaction. On page 42 of his testimony, DPA Witness Cotton states that he made an adjustment to remove all non-executive incentive compensation.

8. Q: <u>Do you agree with Staff Witness Mullinax and DPA Witness Cotton?</u>

A: No, I do not. As I will explain, Delmarva's compensation levels are carefully set to benefit both Delmarva's customers and its employees. I believe that recovery of the incentive programs should be allowed for ratemaking purposes.

9. Q: <u>Please describe the Company's strategy in designing compensation and benefits programs.</u>

A: Compensation and benefits are the key components that enable all businesses, including Delmarva Power, to attract and retain skilled employees at all levels of the organization. Delmarva Power actively competes for skilled employees in the marketplace, and to the extent that Delmarva's overall compensation program lags the market, it impacts Delmarva's ability to both recruit and retain skilled employees, to the detriment of our customers.

10. Q: <u>How does the Company determine whether its non-executive compensation and benefits programs are competitive</u>?

A. The Company retains the services of an external expert consultant to assist in performing an external benchmarking evaluation of all non-union positions every two years. We use the services of these consultants for their expertise in the industry.

11. Q. <u>Please describe the benchmarking process.</u>

A. Management assists the consultant in understanding the roles and responsibilities of each of the positions and the key markets that should be considered in benchmarking each job, based on the Company's recruiting efforts.

For example, some positions are unique to utility operations, and others are positions that are also common to other non-utility firms. For positions that are not unique to utilities, the consultant also considers market data provided by general industry companies in addition to utility data. Competitive compensation data are analyzed using the median (50^{th} percentile) statistics.

The Company designs its compensation plan to be in the middle of the competitive labor market. In other words, our compensation package is intended to be neither at the high end nor the low end of the markets in which we compete for labor resources. Based on the job evaluations, position information, and market definitions for each position, the consultant develops competitive market data for each position. These market data includes both salary and incentive compensation for each position. The consultant also assists the Company in making recommendations on updating its management salary structure (commonly know as salary ranges or levels) based on the market data. Each position is assigned a salary range from minimum to maximum, and also an incentive compensation target. Each position is assigned to a salary range in the salary structure.

12. Q. **How does the Company use the salary ranges developed through benchmarking?**

A. The salary ranges are used by the Company when making decisions regarding the pay for new and existing employees. Actual salaries are determined based on the experience and performance of the employees, and the supply and demand for employees with particular skills and abilities in the market.

13. Q: <u>Please describe the results of the most recent non-executive market evaluation that was completed in 2009.</u>

A. Overall, the study found that PHI's compensation program is competitive and consistent with utility and general industry practices. However, exceptions were noted. For example, for non-executive positions, our incentive targets are below market levels for higher graded positions, and our current compensation program has limited ways to recognize and award individuals for the quality of their performance. In other words, when it comes to what are usually referred to as "bonuses," PHI's and Delmarva's compensation programs are below those of the average company in the industry.

14. Q: <u>Does the Company follow a similar competitive market evaluation process for executive positions?</u>

A. Yes. The Compensation/Human Resources Committee of the PHI Board of Directors retains an independent consultant, Pearl Meyer and Partners, to assist it in the design of executive compensation programs. The benchmarking process for executive positions is essentially the same as for non-executive compensation; however, the market typically provides executive positions with additional executive compensation elements not typically provided to non-executives.

15. Q: <u>What are the additional executive compensation elements you reference?</u>

A. Long term incentives in the form of Company stock are a common element that is expected by the market in designing compensation for executives in investor owned companies. This is one of the elements that Staff Witness Mullinax proposes be removed from the revenue requirement.

This plan promotes the long term business interest of the Company and its customers. These objectives include providing safe and reliable service to our regulated utility customers. Additionally, the market typically provides programs that allow executives to not be penalized by benefits limits established by the IRS, such as limits on qualified pensions and contributions to qualified salary deferral plans commonly referred to as 401k plans. The SERP and deferred compensation match are excluded by Company Witness Mullinax in her Adjustments 5 and 9. The market also typically provides executives with certain perquisites that assist firms in attracting and retaining executive talent. Examples of these perquisites are transportation allowances or usage of Company vehicles, and services such as financial and tax planning, and executive physicals. These perquisites facilitate the transportation of executives to and from Company facilities and community related events in a cost effective and reliable manner. The financial planning, tax preparation, and executive physicals perquisites are designed to allow the executive to keep undivided attention on the needs of the organization and to promote wellness of the executives, to the benefit of the Company and its customers.

16. Q: <u>What conclusions did the Committee's consultant make regarding total cash compensation for PHI executives for 2009?</u>

A. As described in the Compensation Discussion and Analysis section of the Proxy Statement and 2008 Report to Shareholders, Pearl Meyer and Partners commented that total cash compensation (salary plus annual bonus) for executive officers was within the market median range of practices, and recommended no changes for 2009.

17. Q: **<u>What conclusions did the Committee's consultant make regarding total direct compensation for PHI executives for 2009?</u>**

A. As described in the Compensation Discussion and Analysis section of the Proxy Statement and 2008 Report to Shareholders, Pearl Meyer and Partners commented that total direct compensation (salary + annual bonus + long term incentive) for executive officers was somewhat below the midpoint of the competitive range market median range of practices. The consultant concluded, however, that the total compensation and benefits for the executive officers including retirement plans and other benefits were reasonable, and did not recommend an increase in long term incentive targets for 2009.

18. Q: **<u>What conclusions did the Committee's consultant make regarding perquisites for PHI executives for 2009?</u>**

A. As described in the Compensation Discussion and Analysis section of the Proxy Statement and 2008 Report to Shareholders, Pearl Meyer and Partners advised the Committee that perquisites were modest in comparison to the market. It is my opinion that even though the perquisites were described as modest by the Committee's consultant, this element of compensation is very important to the Company's ability to attract and retain executive talent.

19. Q: Please comment on Staff's recommendation to remove the SERP expenses.

A: In 2008, the Company's actuary Watson Wyatt (now Towers Watson) completed a study for the Company regarding the design of the Company's retirement plans for executives which include both qualified and SERP elements. That study compared the qualified pension and SERP plans of the Company to plan designs of firms in the Company's peer group described in the PHI 2008 Proxy Statement. The study found that the benefits provided under the Company's qualified and SERP plans at normal retirement age of 65 were below the median of those provided by the firms in the peer group. As the Company's current plan designs are below those of our peer group, the Company is already at a disadvantage as it relates to the long term retention of executive talent. Removing SERP related expenses, as recommended by Staff, would further reduce the ability to not only attract the skilled people needed to operate the organization, but it would also harm the ability to maintain the skilled employees we have. The decision by the Company to offer its SERP plan is a reasonable one. Therefore, I disagree with the Staff's recommendation to remove the SERP related expenses.

20. Q: Please describe the Company's proposed adjustment for employee benefits.

A: As described by Company Witness VonSteuben, the Company included an adjustment to test period operation and maintenance expense that would reflect an increase in medical expense by 8%, and dental and vision expense by 5% based on the work on the Company's benefit consultant, Lake Consulting, Inc. Both the Staff and DPA rejected this adjustment.

21. Q: **<u>Do you agree with Staff Witness Mullinax and DPA Witness Cotton?</u>**

A: No, I do not. Company Witness VonSteuben addresses the regulatory ratemaking principles on why this adjustment is necessary and I will provide the support for the increase. The Company submitted information from the Company's benefit consultant, Lake Consulting Inc, supporting the Company's requested increase. The Company did not arbitrarily select the proposed increase. Rather, it relied upon an expert consultant with vast experience in this subject matter. All of the consultant information was provided to Staff and DPA in Data Request DPA-A-166. This information was attached to Staff Witness Mullinax's testimony as Exhibit DHM-14, and is attached to my testimony as Schedule ELJ R-2.

This information, which was provided to all of the parties, highlights that the Company's estimated benefit increases are on the low end of the range for the mid-Atlantic region. As an example, the Company used a dental expense rate of 5% while the sample had a range of 5% to 8%, with a mean increase rate 6.6%. Depending on whether one used Point of Service (POS), Health Maintenance Organization (HMO) or Preferred Provider Organization (PPO) plans for reviewing the medical expense increase in the consultant's study, the mean average increases ranged from 11.0% to 11.8%. The Company's 8% estimated increase certainly is reasonable using the provided benchmarks. The Company's adjustment for increased employee benefits should be approved.

22. Q. **<u>Do you agree with Staff Witness Mullinax that several executive benefits should be excluded from rates?</u>**

A. No, I do not. These benefit plans are an important element of the Company's overall executive compensation package, and are required in order to attract and retain executive talent. As previously described, PHI engages an independent consultant to confirm that its executive compensation is adequate to attract the talent necessary to maintain an organization that is able to maintain financial stability, attract necessary investment, and provide safe and reliable service to our customers. The studies performed by our consultant have shown that PHI's total direct compensation (salary + annual bonus + long term incentive) for executive officers is somewhat below the midpoint of the competitive range market median range of practices. Despite this, however, it was determined that the total compensation and benefits for the executive officers, including retirement plans and other benefits were reasonable and would not be increased for 2009.

Ms. Mullinax's suggestion that several of the existing benefits should be excluded from rates (a denial of recovery of costs) constitutes a penalty upon Delmarva and PHI, despite the fact that its compensation package is actually a bit below that of its market comparators. Excluding these benefits from rates would be a finding that the benefits were excessive and wasteful. The careful analysis that PHI performs to establish its executive compensation proves the opposite, however. We are very careful to be sure that PHI's executive compensation package strikes the right balance to attract the necessary talent while remaining reasonable and fair to customers and our shareholders. I think it is clear that we have done just that.

23. Q. **Do you agree with Ms. Mullinax and Mr. Cotton that non-executive incentive compensation should be excluded from rates?**

A. No, I do not. First, it would be helpful to understand a little bit about this portion of our employee compensation program, including the drivers of our incentive compensation. The Company's performance incentive plans are part of employees' total compensation package. Delmarva could simply increase base salaries and provide no incentives. Instead, our leadership has decided to pay a lower base salary while providing opportunity for our employees to earn that higher reward based upon performance. Having a portion of employees' compensation based upon performance (or "at-risk") is an accepted and widely mechanism used to motivate employees to be more efficient and productive.

For Delmarva Power, this program helps to focus employees' attention and efforts on achieving the Company's goals. Many of these goals are explicitly customer-oriented. To the extent that other goals are financial in nature, such goals help motivate employees to keep costs down and thus, benefit customers in the ratemaking process. For example, Delmarva has not had a distribution rate increase since 1995. While there are many factors behind that fact, there is no doubt that one of those factors has been the significant attention our employees pay to efficiency and cost control.

While the specifics of the annual incentive program differ from job to job, or among levels, they all have the same framework of drivers. In particular, all of the programs have employee measures such as safety. All of the programs also have customer satisfaction components including for example, such factors as measurements from the Market Strategies, Inc. survey and field surveys of customers who have had recent interactions with the Company. Reliability measures are also included. Finally, the programs all have financial components such as O&M expense control, managing capital expenditures and achieving our net income targets overall, which, if achieved, lower the revenue requirements to customers. All three of these areas work in concert – Satisfied Employees looking out for the safety of themselves and the public and serving the needs and expectations of Satisfied Customers, and doing so in a financially responsible way. To argue that incentives driven by these critical performance measures are inappropriate to the degree that rate recovery of them should be denied is unreasonable.

24. Q: <u>Do you agree with Staff Witness Mullinax on page 21 where she states that since the plan is "driven first and foremost by financial performance," the plan does not benefit customers?</u>

A: No, I do not agree. The financial portion of the Company's incentive plans directly benefits our customers in many ways. First, having a financially strong and healthy utility does directly benefit customers. The financial targets are set to allow for reasonable levels of investment to meet our customer reliability, safety and service level obligations and commitments at reasonable costs. In addition, a goal of the incentive plan is to ensure our employees are careful in spending money and taking care of the Company's assets. If we are successful in this, we will meet or exceed our financial targets, while still providing for high levels of customer satisfaction and safe and motivated employees. By incenting our employees to meet the financial targets, we assure that we are spending money wisely and efficiently, therefore reducing costs to customers.

The Company's total compensation packages are designed to be competitive with other utilities. Whether all of the compensation is in base salary, incentives, benefits or some combination, the Company's pay philosophy is to set overall compensation at the median of the competitive market.

We have conducted benchmarking and other studies discussed above for years. Management has made what I believe is a correct decision that both the Company and its customers are better off paying a dollar for a goal that is met through an incentive program, rather than paying a dollar and hoping that it is met through a higher base salary program. This is directly supportive of achieving just and reasonable utility rates. The performance of our employees in these "financial" areas has been a major reason why our customers have not experienced a distribution rate increase since 1995. By being successful, we can lengthen the period of time between rate cases and we can mitigate the size of increases when rate cases are filed.

As a company, we are very careful to design an overall compensation program that is reasonable, attracts and maintains skilled employees, and incentivizes our employees to perform at a level that benefits both our customers and our shareholders. As previously explained, we retain the services of an external expert consultant to complete a benchmarking evaluation of all non-union positions every two years to test the reasonableness of our total non-executive compensation program. The benchmarking has proven our overall compensation program to be in-line and, if anything, a bit below that of other representative companies. I strongly disagree with the recommendations of Staff Witness Mullinax and DPA Witness Cotton. I see no legitimate justification for disallowing any portion of the incentive compensation program for our employees.

25. Q: **<u>Please summarize how executive and non-executive incentive compensation plans benefit the customer.</u>**

A. As I have previously stated, there are many ways that these plans benefit the customer, including:

1. They motivate employees – These plans send a clear message to employees as to what the Company believes is important to accomplish as team members working together. I feel these plans positively impact safety which leads to greater efficiency, productivity, higher reliability and customer satisfaction. The cost focus of the incentive program is also designed to reduce the cost of service.

2. They save money both directly and indirectly – Savings in terms of increased productivity, reliability, and safety are directly passed on to the customers in future ratemaking.

3. They reinforce a team focused participative culture – The Company has established values regarding teamwork and valuing the contributions of all employees. Incentives help to reinforce these behaviors, and in so doing so benefit customers.

4. Finally, incentives as a key component of total compensation allow the Company to compete in the marketplace to hire and retain the best talent. I feel that having the best talent working for our business provides ongoing value to our customers, value that continues to grow over time.

26. Q: <u>Please comment on Company Witness VonSteuben's discussion on the Company's Adjustment 5 concerning wage increases.</u>

A. Company Witness VonSteuben rebuts the positions of Staff and DPA witnesses on Wage and FICA increases. He states that the 5 union wage increases referenced in his testimony should be included in the Company's revenue requirement claim as they are known and measurable. I agree with Company Witness VonSteuben's Rebuttal Testimony. The wage increases he references are either currently in effect, are a result of union negotiations, or are reasonably predicted based on history. Company Witness VonSteuben also points out that a non-union merit wage increase of 3.09% went into effect on March 1, 2010. Again, this is accurate, so the costs associated with that wage increase should be included in the Company's revenue requirement claim as well.

27. Q. <u>Please comment on Page 9 of Mr. Smith's testimony where he asserts that the proposed regulatory asset treatment for pension costs provides a disincentive for making just and reasonable reforms to the Company's pension plans. Do you agree?</u>

A: No, I do not agree. The Company has a history of implementing cost saving changes to pension and other post-retirement plans. In 1999, Conectiv implemented a low cost cash balance pension plan for all management employees. In 2005, PHI implemented a low-cost annuity defined benefit plan (PHI sub-plan) for all new management employees (comparable in cost to a cash balance plan, but without the lump sum payment option). Further, PHI eliminated all retiree health and welfare benefits for management and local 1900 employees hired after January 1, 2005. The Company has demonstrated its commitment to monitoring and containing retirement costs.

28. Q. <u>On Page 9, Mr. Smith cites information regarding the trend away from defined benefit plans. What is your reaction?</u>

A. Let's step back and review why retirement plans are offered as a benefit to employees by companies – the primary reason is to not only attract and hire the appropriate talent and skill levels required by the company, but to retain that talent and skill level. There are some companies and some industries where the required talent or skill level is abundant, or the company or industry does not require longevity in its workforce and experiences high turnover of personnel. Certainly a defined benefit plan is not necessarily useful or valuable to employees in such situations, as the employee population does not stay in one place long enough to vest in a traditional defined benefit plan. In these cases, a portable defined contribution plan is the key to hiring talent.

This is very different from Delmarva's situation. It is difficult to find, hire and train skilled employees in the electric utility industry, and there is a lot of competition for talent. Once hired, Delmarva wants those employees to remain with the company for as long as possible and be there to train new employees and provide for an orderly retirement pattern. The Company has relatively low turnover of personnel, and that is a good thing. A defined benefit plan is a key and valuable benefit in this situation. That is why the statistics on closing or modifying pension plans is less prevalent in the electric utility industry than some of the national statistics Mr. Smith quotes.

Companies want to provide benefits that are competitive in the current market relative to peer organizations. PHI participates in benchmarking surveys to compare the cost of its benefit plans to other utilities and PHI's plans are comparable to other utilities. In addition, PHI reviewed plans offered by surrounding utilities, companies and state employers with which it competes for talent, and finds that a significant majority continue to offer traditional defined benefit plans to employees.

29. Q: <u>Does this conclude your rebuttal testimony?</u>

A. Yes, it does.

PSC DOCKET NOS. 09-414/09-276T

STAFF RESPONSES TO DELMARVA POWER & LIGHT COMPANY DATA REQUESTS DIRECTED TO DONNA H. MULLINAX

37. Did Ms. Mullinax read the Commission's Order in Docket No. 05-304? Does Ms. Mullinax acknowledge that the Commission included the safety portion of incentives in the final revenue requirement? Please explain why Ms. Mullinax differed from the Commission's decision on this issue or whether this was an oversight?

Response: As set forth in her response to Question #3, Mrs. Mullinax read the Commission's order in Docket No. 05-304.

Although the Commission states in its Docket No. 05-304 Order that incentive plans that are triggered by the achievement of safety, reliability, and goals of that nature benefit ratepayers, the Commission also recognized that the majority of the plans at issue in that proceeding had primarily financial triggers. Mrs. Mullinax understands that the Commission may have allowed a partial allowance of $107,000, but that most of the Company's request was denied.

The Company's current incentive plans are still driven first and foremost by financial performance. As a result, Mrs. Mullinax recommended the exclusion of the Company's incentive compensation plan from its rate request.

In addition, the current economic circumstances dictate that any request for an increase in rates must be based on what is absolutely necessary to provide safe and reliable service. As Staff contended in Docket No. 05-304, incentive payouts are not "necessary" to the provision of safe, adequate and reliable service. Also, as Mrs. Mullinax discussed in her prefiled testimony, , this country is now in the throes of the worst recession since the Great Depression, and the Company's incentive payments increased dramatically in the test year – both of which should subject them to greater scrutiny.

Response Sponsor: Donna Mullinax

Lake Consulting, Inc.
7200 Bradley Boulevard
Bethesda, MD 20817
301-365-1964

May 14, 2009

Dear Sir/Madam:

Here are the results of our medical trend survey for the second quarter of 2009. This represents the projected trends in use for the second quarter of 2009. Six companies in the region participated, and we thank all of them. We present the company by company results, the mean, the median, and the range of rates in each category of plan. Please note that while two companies have withdrawn from the survey, their data through the end of 2005, though hidden, will remain on the historical chart calculations.

- For this quarter, all seven categories showed changes from the mean average projected first quarter trends. POS, PPO and CDHP increased 0.2 %. Indemnity increased 0.3%. HMO increased 0.4%. Pharmacy increased 0.5%. And Dental decreased 0.1%.
- When compared to last quarter, three companies showed no changes in projected trends. One company made no change to their Dental trend and increased all other trends by 1.9%. One company increased four of their trends (HMO, POS, PPO, and CDHP) by 0.1%, increased Pharmacy by 1.1%, and made no change to Indemnity and Dental. One company made no changes to HMO and Indemnity, increased Pharmacy by 0.3%, and lowered Dental, POS, PPO and CDHP from 0.4% to 0.8%.
- The HMO second quarter 2009 mean average trend shows an increase of 0.4% over the trend for first quarter 2009. Two companies increased their HMO trend by 1.9% and 0.1%.
- The POS second quarter 2009 mean average trend shows an increase of 0.2%. Two companies increased their POS trend by 1.9% and 0.1%, and another company lowered it 0.5%.
- The PPO second quarter 2009 mean average trend also shows an increase of 0.2%. Two companies increased their POS trend by 1.9% and 0.1%, and another company lowered it 0.8%.
- The Indemnity second quarter 2009 mean average trend shows an increase of 0.3%. One company increased their Indemnity trend by 1.9%.
- The Dental second quarter 2009 mean average trend shows an decrease of 0.1%. One company made a change to their projected Dental trend rate, lowering it 0.4%.
- The Pharmacy second quarter 2009 mean average trend increased 0.5% with three companies increasing their Pharmacy trend by 1.9%, 0.3% and 1.1%.

- The Consumer Driven Health Plan second quarter 2009 mean average trend is 0.2% higher than that of first quarter 2009. Three companies made changes to their CDHP trend – two increased it 1.9% and 0.1%, and one lowered it 0.8%.
- For the second time since we began asking, we had reports of CDHP Pharmacy trends that were different from trends for CDHP base plans. Two companies in our survey reported a CDHP Pharmacy trend 1.0% higher than their CDHP base plan trend.

This quarter, the mean average projected POS and CDHP trends are the lowest medical trends at 11.0%, with POS rates ranging from 7.5% to 13.4% and CDHP rates ranging from 6.9% to 13.4%. Current HMO trends were the next lowest, 11.1%, with rates ranging from 6.5% to 13.4%. The current mean average projected PPO trend is 11.8%, with rates ranging from 8.9% to 13.4%. Current Indemnity trends were still the highest of the medical trends at 14.6%, with a range of 13.4% to 16.5%. Dental trends are lower than medical, 6.6% mean average, with a range from 5.0% to 8.0%. Pharmacy trends, at 11.7% mean average, range from 9.5% to 13.4%.

We also want to show you these trends over time, so we have summarized by type of medical plan the trends since we began this survey. You will be able to see at a glance how your plan has compared with other plans. During the forty-two quarters we have collected data (of which sixteen are displayed), we see the following increases:

- The mean average of HMO trends has increased from 5.3% to 11.1%.
- The mean average of POS trends has increased from 6.6% to 11.0%.
- The mean average of PPO trends has increased from 9.3% to 11.8%.
- The mean average of Indemnity trend has jumped to the highest it has been (14.6%) since first quarter 2006.
- The mean average of Pharmacy trends has decreased from 13.9% to 11.7%. While there were substantial trend increases during the early years of our survey, the Pharmacy trend has come back below our original survey trend levels with the steady decreases occurring nearly every quarter, although this quarter does show a 0.5% increase.

We hope you will find these results both interesting and of value. We will send another survey soon, reporting on third quarter 2009 trends. Again, we thank you for your interest.

Sincerely,

Gary D. Lake, FSA

Jon R. Jennings

Gary D. Lake, FSA
Consulting Actuary

Jon R. Jennings
Consultant

Enclosures

Participating Companies

Aetna/USHealthCare

CareFirst of Maryland

CareFirst of Washington, DC

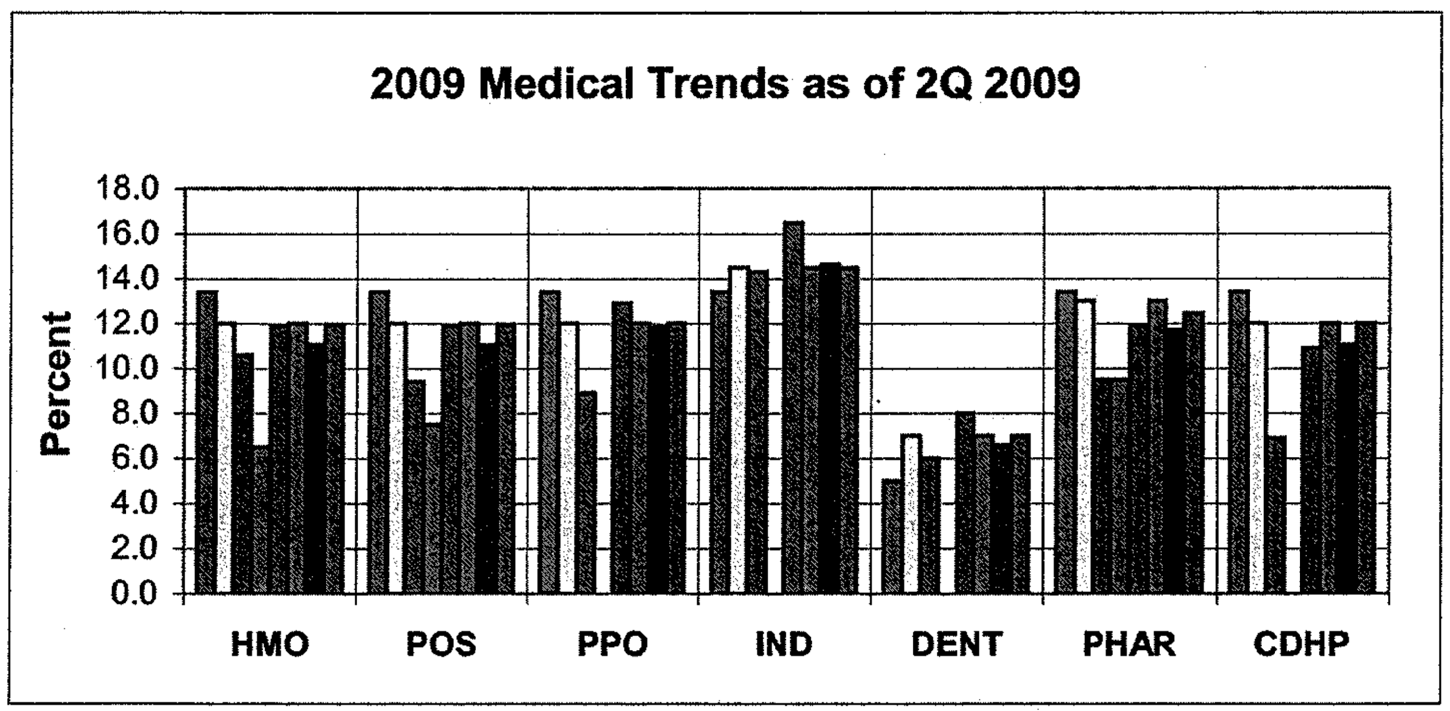
CIGNA HealthCare, Mid Atlantic

Kaiser Foundation of the Mid-Atlantic States

UnitedHealth Group

LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY
VA, MD, DC Area
Annual Medical Trends Being Used for 2nd Quarter, 2009

	[redacted]	Company D	[redacted]	Low	[redacted]
HMO	[redacted]	12.0	[redacted]	6.5	[redacted]
POS	[redacted]	12.0	[redacted]	7.5	[redacted]
PPO	[redacted]	12.0	[redacted]	8.9	[redacted]
Indemnity	[redacted]	14.5	[redacted]	13.4	[redacted]
Dental	[redacted]	7.0	[redacted]	5.0	[redacted]
Pharmacy	[redacted]	13.0	[redacted]	9.5	[redacted]
CDHP	[redacted]	12.0	[redacted]	6.9	[redacted]

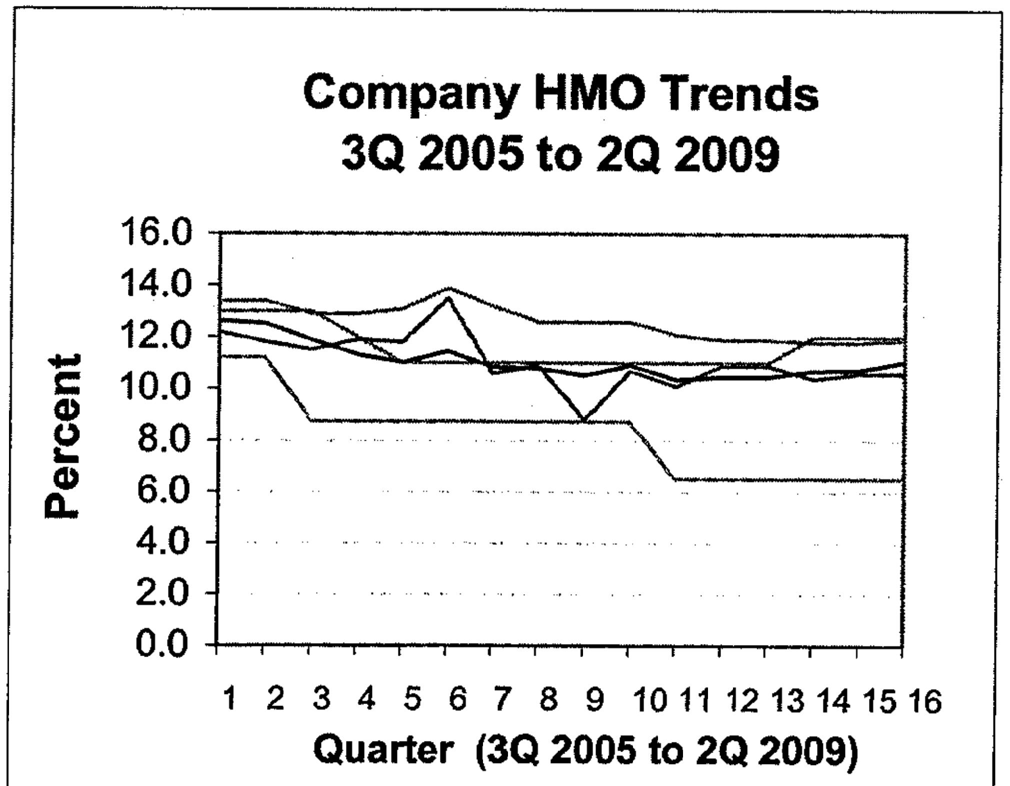


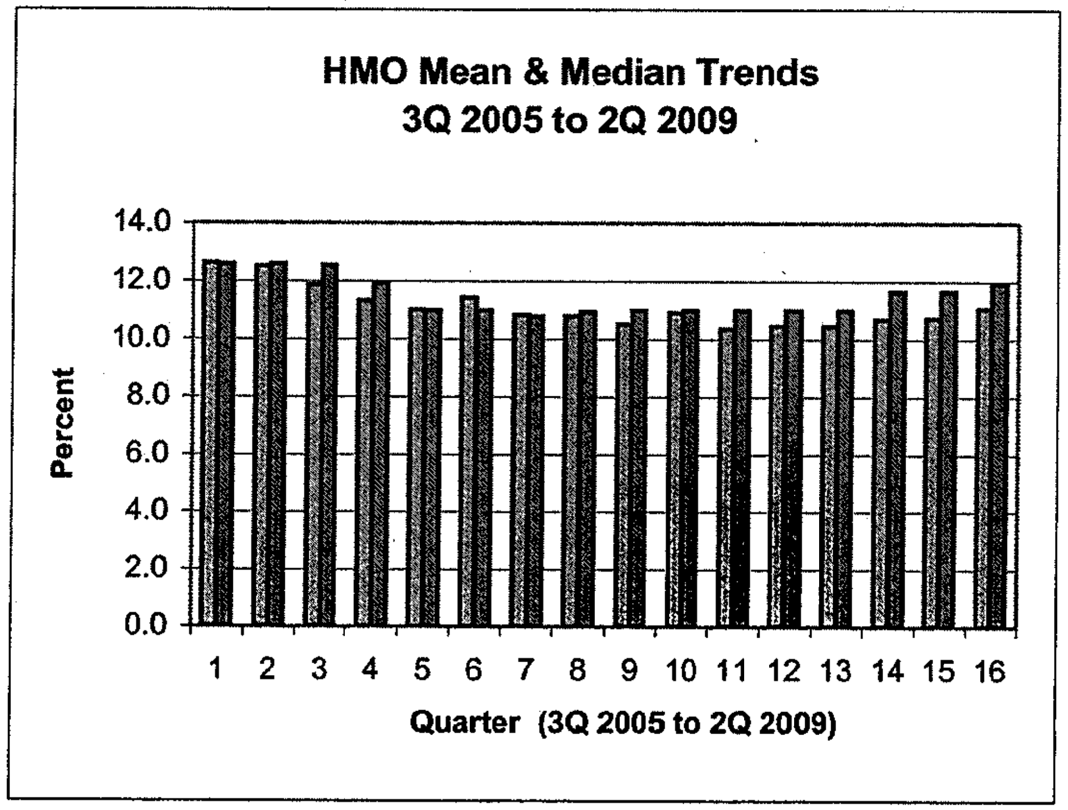
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

HMO Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Co. F	Co. G	[illegible]	Mean Ave	Median	Range of Rates Low	Range of Rates High
3 Q 2005	12.2	[redacted]	11.2	[illegible]	[illegible]	12.6	[illegible]	11.2	13.8
4 Q 2005	12.2	[redacted]	11.2	[illegible]	[illegible]	12.5	[illegible]	11.2	13.4
1 Q 2006	12.2	[redacted]	8.7	[illegible]	[illegible]	11.9	[illegible]	8.7	13.0
2 Q 2006	10.5	[redacted]	8.7	[illegible]	[illegible]	11.3	[illegible]	8.7	12.9
3 Q 2006	10.5	[redacted]	8.7	[illegible]	[illegible]	11.0	11.0	8.7	13.1
4 Q 2006	10.6	[redacted]	8.7	[illegible]	[illegible]	11.5	11.0	8.7	13.9
1 Q 2007	10.6	[redacted]	8.7	[illegible]	[illegible]	10.9	10.8	8.7	13.2
2 Q 2007	10.6	[redacted]	8.7	[illegible]	[illegible]	10.8	11.0	8.7	12.6
3 Q 2007	11.0	[redacted]	8.7	[illegible]	[illegible]	10.5	11.0	8.7	12.6
4 Q 2007	11.5	[redacted]	8.7	[illegible]	[illegible]	10.9	11.0	8.7	12.6
1 Q 2008	11.5	[redacted]	6.5	[illegible]	[illegible]	10.4	11.0	6.5	12.1
2 Q 2008	11.5	[redacted]	6.5	[illegible]	11.0	10.5	11.0	6.5	11.9
3 Q 2008	11.5	[redacted]	6.5	[illegible]	11.0	10.5	11.0	6.5	11.9
4 Q 2008	11.5	[redacted]	6.5	[illegible]	[illegible]	10.7	11.7	6.5	12.0
1 Q 2009	11.5	[redacted]	6.5	[illegible]	[illegible]	10.7	11.7	6.5	12.0
2 Q 2009	13.4	[redacted]	6.5	[illegible]	12.0	11.1	12.0	6.5	13.4





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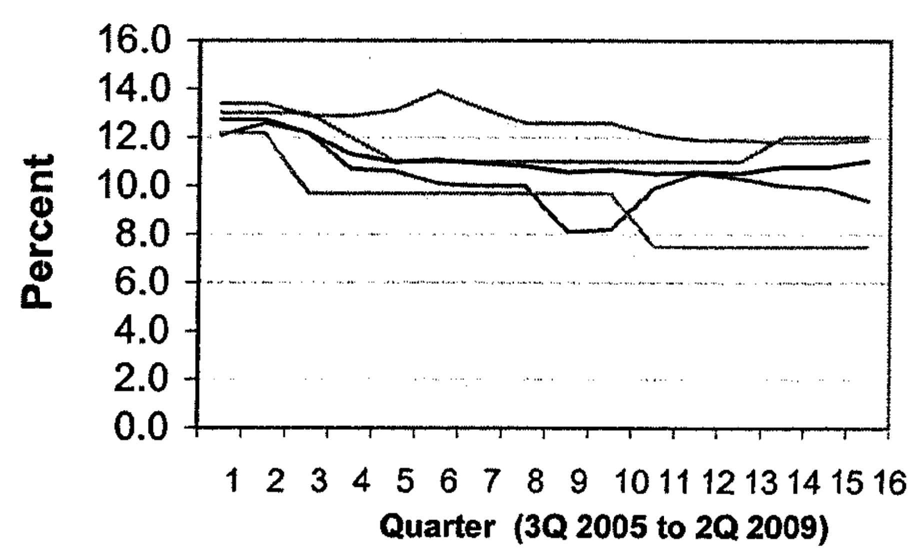
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

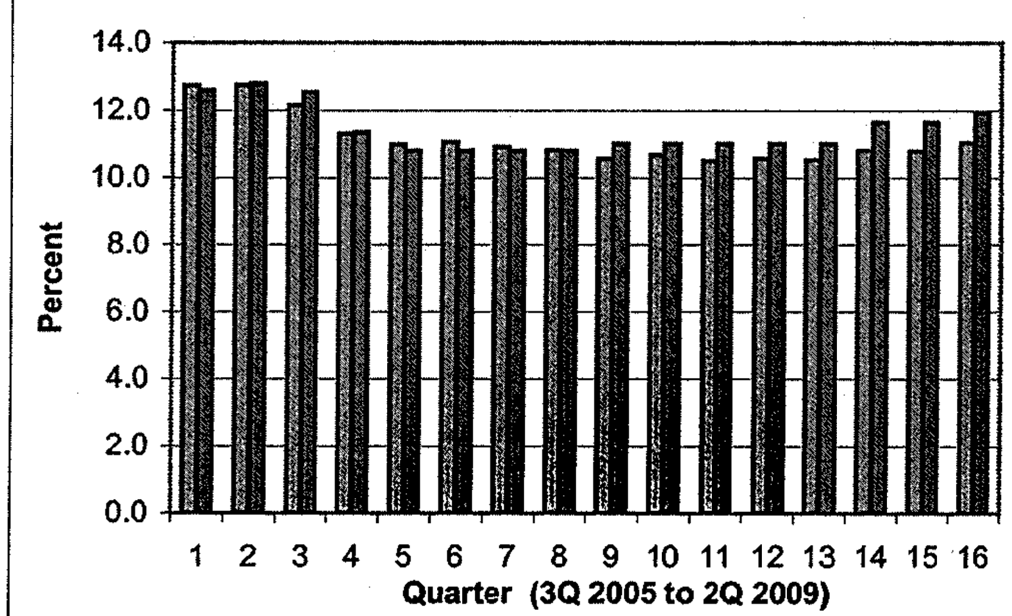
POS Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Co. F	Co. G	Co. H	Mean Ave	Median	Range of Rates Low	Range of Rates High
3 Q 2005	12.2	[redacted]	12.2	[illegible]	[illegible]	12.7	[illegible]	12.1	13.8
4 Q 2005	12.2	[redacted]	12.2	[illegible]	[illegible]	12.8	[illegible]	12.2	13.4
1 Q 2006	12.2	[redacted]	[illegible]	[illegible]	[illegible]	12.2	[illegible]	9.7	13.0
2 Q 2006	10.5	[redacted]	[illegible]	[illegible]	[illegible]	11.3	[illegible]	9.7	12.9
3 Q 2006	10.5	[redacted]	[illegible]	[illegible]	[illegible]	11.0	[illegible]	9.7	13.1
4 Q 2006	10.6	[redacted]	[illegible]	[illegible]	[illegible]	11.1	[illegible]	9.7	13.9
1 Q 2007	10.6	[redacted]	9.7	[illegible]	[illegible]	10.9	[illegible]	9.7	13.2
2 Q 2007	10.6	[redacted]	9.7	[illegible]	[illegible]	10.8	[illegible]	9.7	12.6
3 Q 2007	11.0	[redacted]	9.7	[illegible]	[illegible]	10.6	11.0	8.1	12.6
4 Q 2007	11.5	[redacted]	9.7	[illegible]	[illegible]	10.7	11.0	8.2	12.6
1 Q 2008	11.5	[redacted]	7.5	[illegible]	[illegible]	10.5	11.0	7.5	12.1
2 Q 2008	11.5	[redacted]	7.5	[illegible]	[illegible]	10.6	11.0	7.5	11.9
3 Q 2008	11.5	[redacted]	7.5	[illegible]	[illegible]	10.5	11.0	7.5	11.9
4 Q 2008	11.5	[redacted]	7.5	[illegible]	[illegible]	10.8	[illegible]	7.5	12.0
1 Q 2009	11.5	[redacted]	7.5	[illegible]	[illegible]	10.8	[illegible]	7.5	12.0
2 Q 2009	13.4	[redacted]	7.5	[illegible]	[illegible]	11.0	12.0	7.5	13.4

Company POS Trends
3Q 2005 to 2Q 2009



POS Mean & Median Trends
3Q 2005 to 2Q 2009



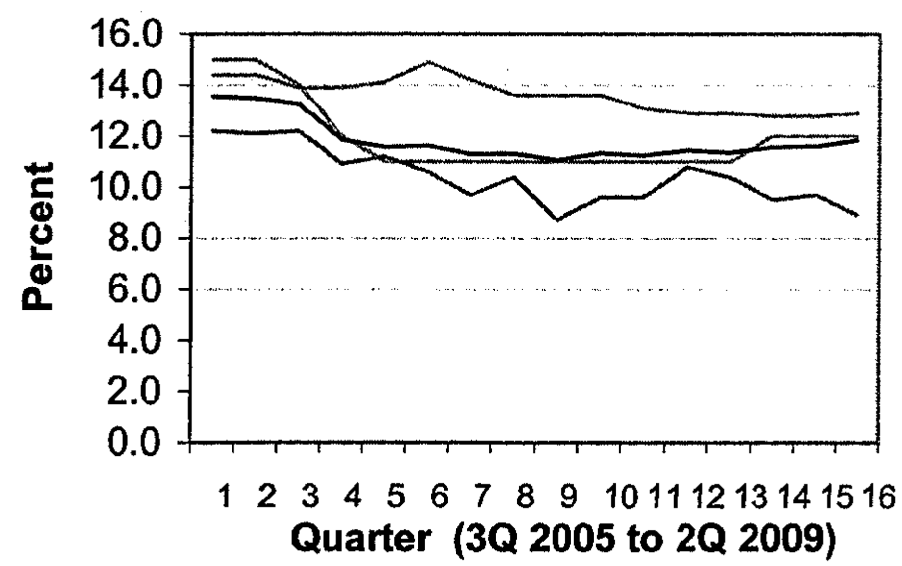
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

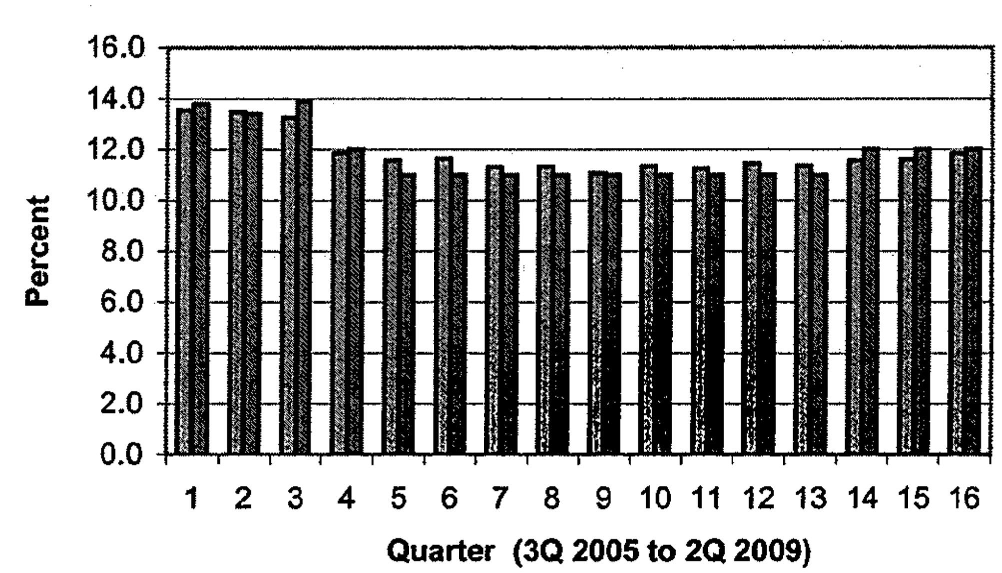
PPO Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Mean Ave	[redacted]	Low	High
3 Q 2005	12.2	[redacted]	13.5	[redacted]	12.2	15.0
4 Q 2005	12.2	[redacted]	13.5	[redacted]	12.1	15.0
1 Q 2006	12.2	[redacted]	13.3	[redacted]	12.2	14.0
2 Q 2006	10.5	[redacted]	11.9	[redacted]	10.5	13.9
3 Q 2006	10.5	[redacted]	11.6	[redacted]	10.5	14.1
4 Q 2006	10.6	[redacted]	11.6	[redacted]	10.6	14.9
1 Q 2007	10.6	[redacted]	11.3	[redacted]	9.7	14.2
2 Q 2007	10.6	[redacted]	11.3	[redacted]	10.4	13.6
3 Q 2007	11.0	[redacted]	11.1	[redacted]	8.7	13.6
4 Q 2007	11.5	[redacted]	11.3	[redacted]	9.6	13.6
1 Q 2008	11.5	[redacted]	11.2	[redacted]	9.6	13.1
2 Q 2008	11.5	[redacted]	11.4	[redacted]	10.8	12.9
3 Q 2008	11.5	[redacted]	11.4	[redacted]	10.4	12.9
4 Q 2008	11.5	[redacted]	11.6	[redacted]	9.5	12.8
1 Q 2009	11.5	[redacted]	11.6	[redacted]	9.7	12.8
2 Q 2009	13.4	[redacted]	11.8	[redacted]	8.9	13.4

Company PPO Trends
3Q 2005 to 2Q 2009



PPO Mean & Median Trends
3Q 2005 to 2Q 2009



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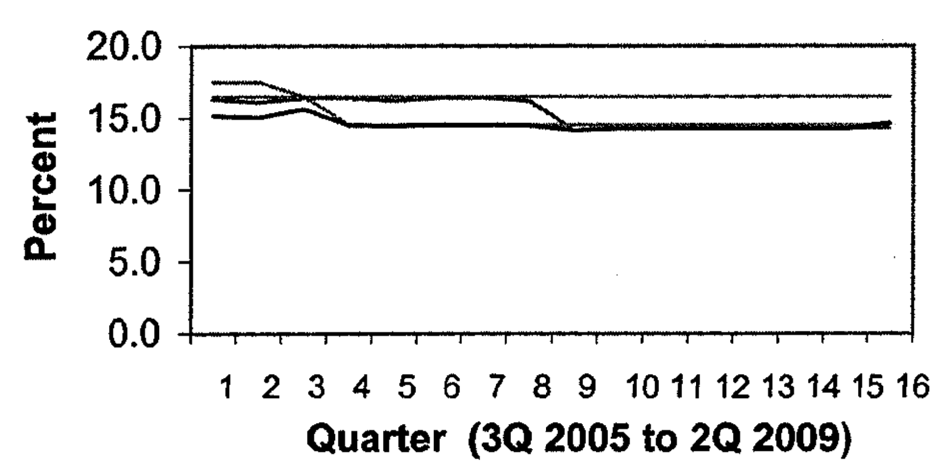
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

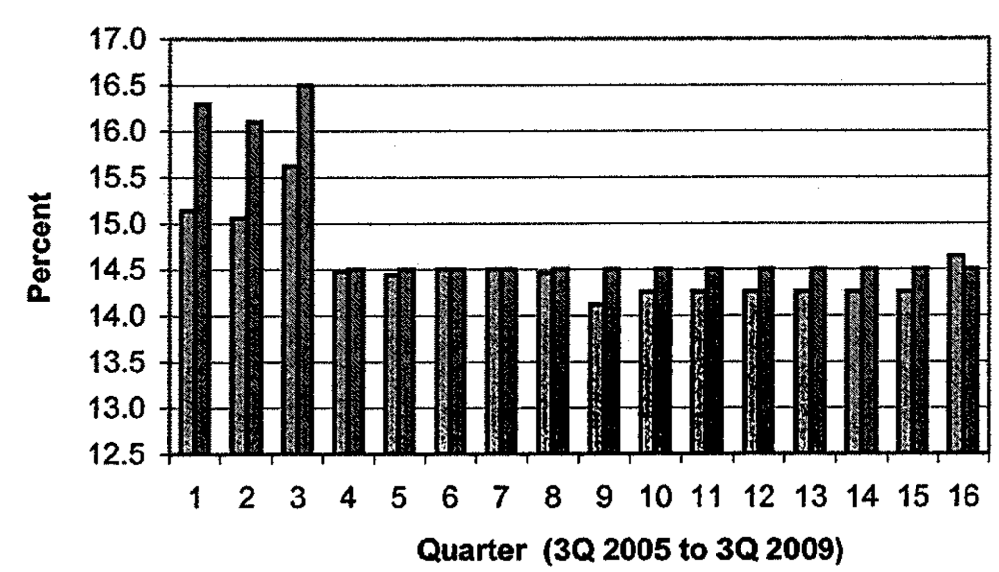
Indemnity Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Mean Ave	[redacted]	Low	High
3 Q 2005	12.2	[redacted]	15.1	[redacted]	12.2	17.5
4 Q 2005	12.2	[redacted]	15.1	[redacted]	12.2	17.5
1 Q 2006	12.2	[redacted]	15.6	[redacted]	12.2	16.5
2 Q 2006	10.5	[redacted]	14.5	[redacted]	10.5	16.5
3 Q 2006	10.5	[redacted]	14.4	[redacted]	10.5	16.5
4 Q 2006	10.6	[redacted]	14.5	[redacted]	10.6	16.5
1 Q 2007	10.6	[redacted]	14.5	[redacted]	10.6	16.5
2 Q 2007	10.6	[redacted]	14.5	[redacted]	10.6	16.5
3 Q 2007	11.0	[redacted]	14.1	[redacted]	11.0	16.5
4 Q 2007	11.5	[redacted]	14.3	[redacted]	11.5	16.5
1 Q 2008	11.5	[redacted]	14.3	[redacted]	11.5	16.5
2 Q 2008	11.5	[redacted]	14.3	[redacted]	11.5	16.5
3 Q 2008	11.5	[redacted]	14.3	[redacted]	11.5	16.5
4 Q 2008	11.5	[redacted]	14.3	[redacted]	11.5	16.5
1 Q 2009	11.5	[redacted]	14.3	[redacted]	11.5	16.5
2 Q 2009	13.4	[redacted]	14.6	[redacted]	13.4	16.5

Company Indemnity Trends
3Q 2005 to 2Q 2009



Indemnity Mean & Median Trends
3Q 2005 to 2Q 2009



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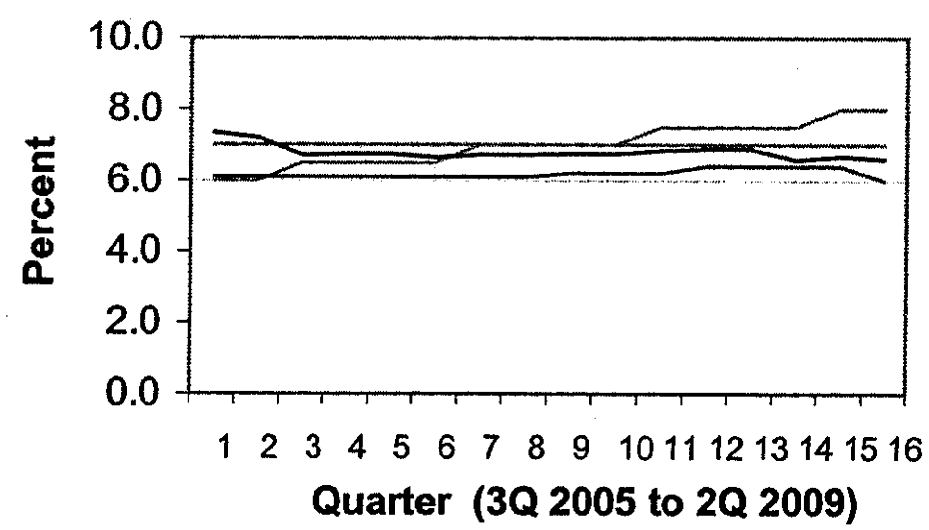
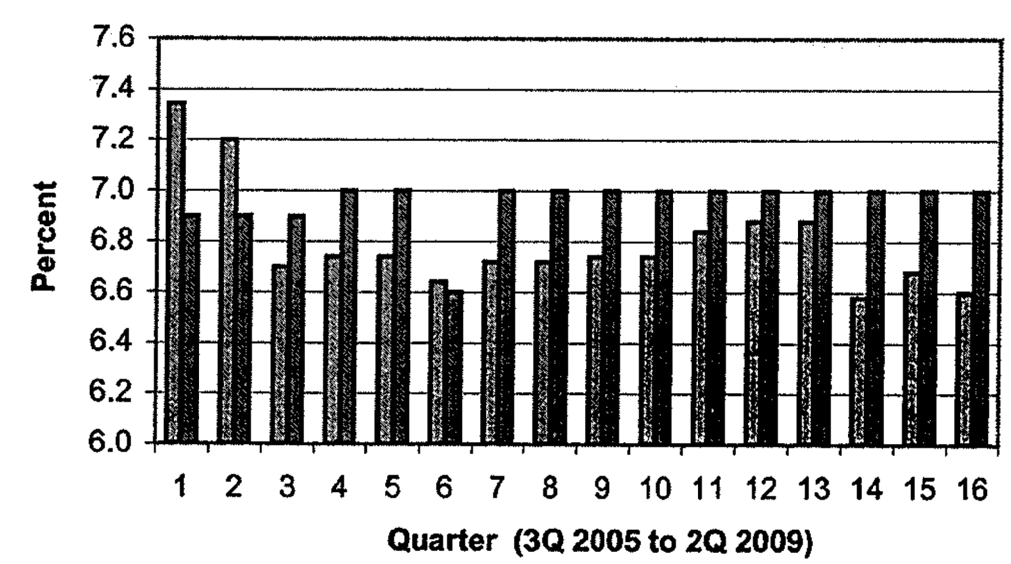
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

Dental Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Co. F	Co. G	[illegible]	Mean Ave	Median	[redacted] Low	High
3 Q 2005	6.9		[illegible]	[illegible]	[illegible]	7.3	[illegible]	6.0	11.5
4 Q 2005	6.9		[illegible]	[illegible]	[illegible]	7.2	[illegible]	6.0	10.5
1 Q 2006	6.9		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.1	7.0
2 Q 2006	7.1		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.1	7.1
3 Q 2006	7.1		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.1	7.1
4 Q 2006	6.6		[illegible]	[illegible]	[illegible]	6.6	[illegible]	6.1	7.0
1 Q 2007	6.5		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.1	7.0
2 Q 2007	6.5		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.1	7.0
3 Q 2007	6.5		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.2	7.0
4 Q 2007	6.5		[illegible]	[illegible]	[illegible]	6.7	[illegible]	6.2	7.0
1 Q 2008	6.5		[illegible]	[illegible]	[illegible]	6.8	[illegible]	6.2	7.5
2 Q 2008	6.5		[illegible]	[illegible]	[illegible]	6.9	[illegible]	6.4	7.5
3 Q 2008	6.5		[illegible]	[illegible]	[illegible]	6.9	[illegible]	6.4	7.5
4 Q 2008	5.0		[illegible]	[illegible]	[illegible]	6.6	[illegible]	5.0	7.5
1 Q 2009	5.0		[illegible]	[illegible]	[illegible]	6.7	[illegible]	5.0	8.0
2 Q 2009	5.0		[illegible]	[illegible]	[illegible]	6.6	[illegible]	5.0	8.0





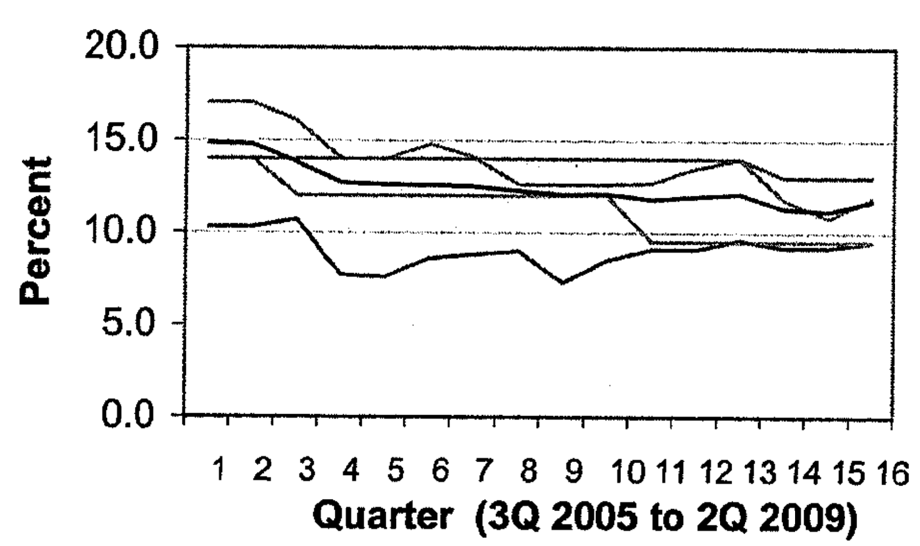
LAKE CONSULTING, INC.
QUARTERLY MEDICAL TREND SURVEY

VA, MD, DC Area

Pharmacy Summary for 3Q 2005 to 2Q 2009

	Co. C	[redacted]	Mean Ave	[redacted]	[redacted]	
					Low	High
3 Q 2005	14.0		14.9		10.3	18.5
4 Q 2005	14.0		14.8		10.3	17.9
1 Q 2006	14.0		13.8		10.7	16.0
2 Q 2006	14.5		12.7		7.7	14.5
3 Q 2006	14.0		12.6		7.6	14.0
4 Q 2006	12.0		12.6		8.6	14.8
1 Q 2007	12.0		12.5		8.8	14.1
2 Q 2007	12.0		12.3		9.0	14.0
3 Q 2007	12.5		12.1		7.3	14.0
4 Q 2007	11.5		12.1		8.5	14.0
1 Q 2008	11.5		11.8		9.1	14.0
2 Q 2008	11.5		11.9		9.1	14.0
3 Q 2008	11.5		12.1		9.5	14.0
4 Q 2008	11.5		11.3		9.2	13.0
1 Q 2009	11.5		11.2		9.2	13.0
2 Q 2009	13.4		11.7		9.5	13.4

Company Pharmacy Trends
3Q 2005 to 2Q 2009



Pharmacy Mean & Median Trends
3Q 2005 to 2Q 2009